

Building Blocks

A Publication of the Federal Housing Finance Board



Volume 6, Number 4

Summer 1998

Community Investment Cash Advances

Board Approves Proposals to Expand Community Investment

In a move to provide broader options for the FHLBanks for addressing unmet economic development and housing credit needs, the Federal Housing Finance Board approved for notice and comment on April 22 two proposed rules: one that would establish a framework for Community Investment Cash Advance (CICA) programs and one that would codify standards for the issuance of letters of credit.

The Federal Home Loan Bank Act permits the FHLBanks to establish CICA programs in addition to the Community Investment Program (CIP) and the Affordable Housing Program (AHP), which are required programs under the Bank Act.

The proposed CICA rule sets out general standards under which the FHLBanks may establish CICA programs and rules for two specific CICA programs: the Rural Development Advances (RDA) and Urban Development Advances (UDA) programs. The standards are designed to encourage FHLBanks to support income-targeted community investment by creating safe harbor programs that would not require

prior Finance Board approval, such as projects located in an Empowerment Zone, or involving property eligible for a federal Brownfield Tax Credit, or properties in communities which have experienced NAFTA-related job losses.

"The CIP and AHP have been effective in helping to meet many unmet credit needs," said Finance Board Chairman Bruce A. Morrison. "but they cannot meet every need. We encourage the FHLBanks to take advantage of the flexibility CICA programs provide to address additional targeted economic development and housing needs in urban and rural areas, and we encourage members to take advantage of new business opportunities these programs should produce."

Under the CIP, the FHLBanks provide funding at cost for their members to support the

financing of housing for families with incomes at 115 percent or less of the area median income and commercial and economic development projects that benefit families with incomes at 80 percent or below of the area median.

Long-term cash advances in the RDA and UDA programs could be used by FHLBank members and nonmember borrowers for financing economic development projects in rural or urban areas, and could benefit populations not targeted by the CIP. The RDA program is targeted for families at 115 percent or below the area median and the

(See **CICA**, page 2)

Table of Contents

*FHLBank System, Conference of Mayors Sponsor
Seminar on Brownfields Lending.....* **see page 3**

*Finance Board to Review Options This Fall as
Investment-Activity Hearing Ends. . .* **see page 4**

*Nonprofits, FHLBank System Members Honored for
Community Investment Projects.....* **see page 5**

*USDA Joins FHLBank System in Agreement on
Rural Development Efforts.....* **see page 5**

(CICA, from page 1)

UDA program for families at or below 100 percent.

Through the first eight years of the CIP, 96 percent of CIP advances have been used by members to finance housing rather than economic development activities. "Economic development is an important new role for the FHLBank System," said Morrison. In addition to clarifying CIP policies, the rule encourages the FHLBanks to shift the focus of the CIP from volume lending in support of home

mortgage loans to a more targeted approach with an emphasis on maximizing the impact of each advance.

The proposed rule would require each FHLBank to create a strategy for providing CIP advances to support financing for projects that is not otherwise available, or is available at less attractive terms. The FHLBanks may establish each year a projected annual total of CIP advances, taking into account the bank's earnings and how much credit

the bank intends to provide under other CICA programs.

The proposed regulation on standby letters of credit (LOCs) provides FHLBanks with greater flexibility and discretion than they have under the agency's current standby LOC policy and encourages greater use of LOCs that support housing and targeted economic development. It would permit the FHLBanks to issue letters of credit to assist their members in housing and targeted economic development finance, asset/ability management, and liquidity and other funding. Targeted economic development is defined the same way in the CICA rule and the LOC regulation.

The LOC proposal would also expand the types of collateral the FHLBanks can accept for letters of credit, including secured small business loans and investment-grade bonds issued by state or local governments. These changes are intended to increase the use of the LOC program by members that hold such collateral. The use of such expanded collateral would be limited to LOCs that are used for activities, such as housing and targeted economic development, that support the FHLBanks' public purpose.

Standby letters of credit are issued by FHLBanks on behalf of an FHLBank member, obligating the bank to honor drafts or other demands of payment received from a third party. They are generally utilized to secure public unit deposits, to credit enhance tax-exempt housing bonds and to support an FHLBank member's commercial paper issuance.

The comment period for the CICA and LOC proposals expires August 6. Comments should be sent to Elaine Baker, Executive Secretariat, Federal Housing Finance Board, 1777 F Street NW, Washington, DC 20006. □

Second-Round AHP Deadlines Set

The application deadlines for the first round of AHP applications were completed June 15. The second round application deadlines, contact person, and phone numbers for the 12 FHLBanks are:

FHLBank of Boston:

October 1, David Parish,
(617) 330-9872

FHLBank of New York:

October 1, Joseph Gallo,
(212) 441-6824

FHLBank of Pittsburgh :

October 1, James C. Chaney,
(412) 288-3407

FHLBank of Atlanta:

September 15, Robert
Warwick, (404) 888-8435

FHLBank of Cincinnati:

August 1, Carol M. Peterson,
(513) 852-7615

FHLBank of Indianapolis:

October 15, Frederick Hash,
(317) 465-0428

FHLBank of Chicago:

October 1, Charles M. Hill,
(312) 565-5705

FHLBank of Des Moines:

October 15, Curt Heidt,
(515) 281-1175

FHLBank of Dallas:

October 15, Criss Murdoch,
(214) 944-8636

FHLBank of Topeka:

October 15, Chris J. Imming,
(913) 233-0507

FHLBank of San Francisco:

October 1, James Yacenda,
(714) 633-1271

FHLBank of Seattle:

October 15, Judith Dailey,
(206) 340-8708 □

Scarred Land Offers Opportunities

FHLBank System, Mayors Sponsor Summit on Brownfields Lending

On June 3, the Federal Home Loan Bank System and The United States Conference of Mayors jointly hosted a summit to bring together local political leaders and lenders to create private lending strategies to help cities develop tracts of land with minor or correctable environmental damage.

Representatives from each of the 12 FHLBanks attended the first "Brownfields Summit" along with mayors from 11 cities. Guest speakers included Environmental Protection Agency Administrator Carol Browner and Department of Housing and Urban Development Secretary Andrew Cuomo. In addition, experts in the fields of insurance, liability, and underwriting addressed some of the major concerns of lenders and mayors.

Brownfields, defined by the EPA as "abandoned, idled, or under-used industrial and commercial facilities where expansion or redevelopment is complicated by real or perceived environmental contamination." are growing problems for local governments because the sites' environmental and legal problems make them unattractive to developers. By not being able to put the land back on the tax rolls, local governments lose substantial revenue.

Federal Housing Finance Board Chairman Bruce A. Morrison, whose agency regulates the 12 FHLBanks, noted the timeliness of the event in light of the Finance

Board's recent proposed regulations on Letters of Credit and the Community Investment Cash Advance. If the regulations become final, Morrison told the attendees, the FHLBanks could use those instruments to encourage economic development lending in brown fields.

"The FHLBanks are a new part of the community investment/brownfield equation that can bring private-sector financing to the table," Morrison said.

The program began with opening remarks from Fort Wayne, IN, Mayor Paul Helmke, the President of the Conference of Mayors, who said the redevelopment of brownfields in his city is a top priority.

In reviewing the efforts of EPA, Administrator Browner cited a number of examples of private lending in brownfields deals, adding that meetings such as the summit would help bring creativity to the effort to redevelop other brownfield sites.

Joining Mayor Helmke were the mayors of Macon, Georgia; Elizabeth, New Jersey; New Haven, Connecticut; Dearborn and Garden City, Michigan; Lynn, Massachusetts; Cedar Rapids, Iowa; Glen Cove, New York; Akron, Ohio; and Winston-Salem, North Carolina, along with representatives from 14 other cities. Many used the forum as an opportunity to meet the presidents and community investment officers of the FHLBanks and to learn about the

FHLBank System's programs.

One of the highlights of the day was a discussion among lenders, mayors and FHLBank representatives, with the mayors describing their brownfields successes and difficulties and the bankers discussing their efforts to finance projects. The FHLBanks of Des Moines and Indianapolis presented innovative projects as examples of how the FHLBank System has been involved in brownfields. Former New Jersey Governor Jim Florio, a director of the FHLBank of New York, encouraged participants "to focus on areas that but for environmental problems would have economic value."

In his luncheon remarks, Secretary Cuomo, said the coming together of the FHLBank System and cities "makes sense," and was "overdue," and argued that brownfield development would help cities assert their places in the changing economy.

At the close of the summit, Chairman Morrison, Mayor Helmke and FHLBank of New York President Al DelliBovi, who also senses as Chairman of the FHLBank Presidents' Conference, announced their intention to form a task force drawn from the FHLBank System and the mayors to expand on the ideas presented at the summit. The findings and recommendations of the task force are expected to be announced at the Conference of Mayors' January 1999 meeting. □

Investments Hearing Concludes; Board to Review Options This Fall

Concerned that the Federal Home Loan Bank System's investment activity may not be consistent with its status as a government-sponsored enterprise (GSE), the system's regulator held a public hearing May 11 on the FHLBank System's investment policies and practices.

The hearing focused on an analysis by the Federal Housing Finance Board staff showing that the FHLBank System's money market investments (MMI) have grown rapidly over the past 10 years, averaging \$98 billion in 1997. The report pointed out that as a GSE, the FHLBank System can be viewed as a social compact among the FHLBanks, their members, and the federal government. As such, the FHLBanks have the responsibility to fulfill the safety and soundness and public policy mission assigned by Congress.

The report also stated that while growth in the FHLBank System's MMI was a rational response to the aftermath of the thrift crisis of the early 1990s, such investments are not related to the FHLBank System's housing-finance and community-development mission and may be no longer necessary given the recent growth in FHLBank System advances and earnings.

The staff report concluded that FHLBank MMI could be reduced by 50 percent, or \$49 billion, without

significantly reducing the FHLBanks' net income or dividends.

Finance Board Chairman Bruce A. Morrison said at the outset of the hearing that the Board intended to move deliberately and prudently in establishing any investment limits.

"The Finance Board's intent is not to place a straitjacket on the FHLBanks, but to establish investment guidelines that allow the Banks to operate safely and soundly and profitably, while also ensuring that the FHLBanks using their GSE funding advantage to support their housing finance and targeted community development mission," Morrison told the hearing.

Testimony was offered by 19 individuals representing various banking interests, along with 28 comment letters.

Among those writing in support of the Finance Board's review of the FHLBanks' investment activities were Jim Leach (R. IA), chairman of the Housing Banking Committee, and Federal Reserve Chairman Alan Greenspan.

Arguments against limiting nonmortgage investment centered on the FHLBank System's subscription capital structure and on a Congressional requirement that the FHLBank System annually contribute \$300 million to repay REFCORP bonds that were issued to settle the savings and loan crisis a decade ago. The FHLBanks also annually contribute at least \$100

million to the FHLBank System's Affordable Housing Program, as mandated by Congress.

These two expenses, plus generating an adequate return to shareholders, require a broad-based investment strategy, according to those testifying against limiting the FHLBank's investment policies.

The Finance Board also asked for comment on whether the FHLBanks should be permitted to make a small amount of narrowly targeted investments in people and communities having a credit quality significantly below double-A, and whether this activity might be more heavily weighted in evaluating the mission-related character of the overall portfolio.

Arguments for such investments are that such activity is part of the FHLBanks' mission, and that it could be conducted so as to not pose undue risks to the FHLBanks. Counter-arguments were that the capacity of the FHLBanks to absorb risk is extremely low, that the FHLBanks can maintain mission-consistent portfolios without such investments, and that such investment should only be done by member institutions.

The Finance Board staff will analyze all testimony submitted for the hearing and develop options for the Finance Board to consider this fall. □

Community Partnership Awards

57 Honored for Community Development Initiatives

More than 220 housing and community development professionals gathered in Washington, D.C. May 5 for the Federal Home Loan Bank System's 4th Annual Community Partnership Awards. A total of 57 awards were presented to FHLBank System members and their community organization partners in recognition of winners' outstanding leadership in creating partnerships for low-income affordable housing and community development initiatives.

The awards ceremony, held in the Hart Senate Office Building, was preceded by a series of morning seminars in which award winners discussed their projects. Topics of the seminars included: "Homeownership," "Special-Needs Housing," "Community Development," and "Multifamily Innovations." A multimedia show created by the FHLBank of Pittsburgh highlighting photos of many of the winning projects opened the seminars.

The keynote speaker the awards ceremony was Community Development Finance Institutions Fund Executive Director Ellen Lazar.

FHLBank of Atlanta President and Chief Executive Officer Paul D. Hill served as Master of Ceremonies for the awards ceremony, reminding the crowd that the Community Partnership Awards are becoming one of the most important award programs in the affordable housing and economic development field.

Hill told the participants that each of the thousands of applications for funds from the FHLBank

System's Affordable Housing Program and Community Investment Program represents a winning attitude on the part of the applicants.

The Community Partnership Awards winners are selected each year by the community investment offices at each of the 12 FHLBanks, with winners named in housing and

community development categories. The awards recognize institutions, not specific projects.

A 28- page commemorative booklet examining each winning project is available by writing to CPA Booklet, c/o Dennis McGee, Federal Housing Finance board, 1777 F Street NW, Washington D.C. 20006. □

Rural Development Projects

FHFB, USDA Sign Agreement

Representatives from the Federal Housing Finance Board, the Department of Agriculture, and the Federal Home Loan Bank System formally agreed in April to create a partnership to demonstrate new ways of providing long-term, fixed-rate financing for economic development projects in distressed rural areas.

The representatives signed a Memorandum of Understanding for the joint "Rural Economic Development Partnership Pilot Program," committing to a program of up to \$100 million that will provide individuals and public- and private-sector organizations with increased access to financing for local development projects in distressed rural areas.

Under terms of the program, USDA will commit up to \$20 million from its Business and Industry (B&I) Guaranteed Loan program to guarantee up to 60 percent of a loan, and will reduce the guarantee fee to one percent of

the amount guaranteed from two percent. The FHLBanks collectively will set aside up to \$80 million from their below-market-rate community investment programs to fund eligible projects.

"Many sections of rural America are getting short-changed when it comes to financing. The partnership with the USDA will help distressed rural areas with the economic development financing they need," said Bruce A. Morrison, chairman of the Federal Housing Finance Board, which regulates the Federal Home Loan Bank System. "This partnership is one more demonstration of the diverse mission-related needs the FHLBank System was designed to meet."

Each of the 12 FHLBanks operate a Community Investment Program (CIP), which offers advances priced at 25 basis points below regular advances and can be used for housing or economic

(See **AGREEMENT**, page 7)

Technically Speaking

This is the second in a series of columns explaining selected changes in the new Affordable Housing Program regulation

1. Definition of Community Involvement (Section 960.6(b)(4)(iv)(F)(10))

Q. Under the “community involvement” scoring criterion what qualifies as “donated goods and services for purposes of assessing support for a project by local government under this scoring criterion. Do donations of property by a local government qualify for “community involvement” points?

A1. Donated goods and services include property tax deferment or abatement, zoning changes or variances, infrastructure improvements, and fee waivers, such as the waiver of building permit fees. All of these items should be considered donations of goods and services by a local government and would qualify for community involvement points.

A2. Donations of property by a local government should not be considered a good or service for purposes of the community involvement scoring criterion. Such donations must be taken into account under the use of donated government-owned or other properties scoring criterion, which specifically covers donated property set forth in Section 960.6(b)(4)(iv) (A) of the AHP regulation.

2. Experienced Counseling Organization (Section 960.5(a)(2)(ii))

Q. What is a homebuyer or homeowner counseling program provided by, or based on one provided by, an organization recognized as experienced in homebuyer or homeowner counseling?

A. A program such as one that is provided by a counseling organization approved by HUD or a state or local agency would qualify. Programs that are based on counseling guides, such as those provided by the American Homeowners Education and Counseling Institute, also would meet this requirement.

3. Member Subsidy Limits (Section 960.5(b)(10))

Q. A FHLBank may establish certain eligibility requirements for its AHP program. May the limitation on the amount of subsidy available per member be based on a percentage of a member’s assets or a percentage of the total available AHP funds?

A. District eligibility requirements must apply equally to all members. A limitation based on a percentage of a member’s assets would result in larger members being eligible to compete for more AHP funds than smaller members; therefore, such a limitation would not be permitted. However, since limiting each member to no more than a certain

percentage of total available AHP funds would apply equally to each member, such a limitation would be permitted.

4. Nominal Price (Section 960.6(b)(4)(iv)(A))

Q. Regarding the conveyance of government-owned or other properties for a nominal price, what is a nominal price?

A. A nominal price is a small, negligible amount, most often one dollar. Modest expenses related to the conveyance of the property may also be paid.

5. Material Change (Sections 960.7(a)&960.9))

Q. For purposes of modification to AHP applications before or after project completion, what constitutes a change in a project that materially affects the facts under which the project’s application was originally scored and approved for AHP funding?

A. Change that materially affects the facts under which an AHP application was originally scored and approved is any change that has the potential for rendering the project ineligible or for changing the score that the project received in the funding period in which it was originally scored, had the changed facts been operative at that time. Examples include changes in the level of income targeting or the number of targeted units in a project. ☐

Directors' Conference Draws 156 Participants

A two-day conference aimed at maximizing the effectiveness of the Federal Home Loan Bank System attracted 156 participants to Washington from the 12 FHLBank districts. The annual conference,

held June 1-2, was open to all 188 individuals serving on the boards of directors at the 12 FHLBanks.

Following an agenda set by the FHLBanks' directors planning committee, participants discussed

present FHLBank System operations and ways to improve it over the next five years.

"The participants dealt openly with contentious and difficult questions about the current value of the FHLBank System and its future potential," said Bruce A. Morrison, chairman of the Federal Housing Finance Board that regulates the 12 FHLBanks.

Speakers during the conference represented a wide spectrum of interests from the legislative, banking, nonprofit, and regulatory worlds. Department of the Treasury Undersecretary John Hawke, the keynote dinner speaker on June 1, gave the department's view on government-sponsored enterprises (GSEs), such as the 12 FHLBanks. Treasury's view is that GSEs should fill only a "market failure" need, remain narrowly focused, and go out of business when they've done their job.

The first panel discussions on June 2 was titled, "What is the value of the Federal Home Loan Bank System?" Participants heard from Kerry Killinger, chairman of Washington Mutual, Inc., a multi-billion-dollar-asset super-regional bank in Seattle, Washington, and from Michael L. Middleton, chairman of Community Bank of Tri-County, a small community bank in Waldorf, Maryland.

Following the panel discussion, the conference separated into 10 roundtable discussions where each group expressed its views and reported back to a discussion coordinator on how they use the FHLBank System.

The afternoon panel discussion asked, "What can be done to
(See **DIRECTORS**, page 8)

(AGREEMENT, from page 5)

development activities. Generally, FHLBank System members pass the cost savings from the reduced advances to the borrower.

CIP-funded activities must benefit families with incomes of 80 percent or less of the area median income or must be located in areas where at least 51 percent of the households have incomes that are 80 percent or less of the area median income.

The strength of the community investment programs are that they provide lenders with long-term, fixed-rate, flexible financing to match the long-term fixed-rate needs of borrowers. There is no limit on the size of a CIP advances; past advances for rural economic development projects have ranged from \$44,000 to \$8 million.

The USDA B&I Guaranteed Loan Program helps create jobs and stimulates rural economic by providing financial backing for rural businesses. The program can be used for working capital, machinery and equipment, buildings and real estate, and certain types of debt financing.

The B&I is available to virtually any legally organized entity, including a cooperative, corporation, partnership, trust or other for-profit or nonprofit entity, Indian tribe, or federally

recognized tribal group. Also any municipality, county, or other political subdivision of a state can apply for a B&I guarantee. The maximum aggregate B&I guarantee loan amount for any one borrower is \$25 million.

Funds committed to this program must be used in federally designated rural Empowerment Zones, Enterprise Communities, Champion Communities, nonmetropolitan persistent poverty counties, nonmetropolitan counties with the greatest declining populations, and areas impacted by natural disasters or federal actions that have resulted in a decline in economic conditions.

The new initiative compliments existing partnerships between the FHLBank System and USDA. The Rural Home Loan Partnership, which began in 1996, links USDA's Rural Housing Service Section 502 leveraged loans with the CIP. The Rural Head Start and Child Care Collaborative, announced in 1997, puts together USDA's Community Facilities loans and grants program with Head Start grants and the CIP.

For more information, contact Roberta Youmans at (202) 408-2581 at the Finance Board, or William F. Hagy III at (202) 720-7287 at USDA. □

Resources

"Community Building: Coming of Age," is a 74-page book that discusses successes in local community development and how to apply them on a broader scale. The publication costs \$20 each for orders of 49 or fewer copies, and \$10 per copy for 50 or more. The **Development Training Institute** and can be reached at (410) 338-2512.

"Budgeting for Community Development Organizations," is a publication from **The Enterprise Foundation**, that includes a computer disk of sample budgets

(**DIRECTORS**, from page 7)——

improve the value of the FHLBank System?" with input from Bart Harvey, chairman of The Enterprise Foundation, a large nonprofit organization in Columbia, Maryland; David Hemingway, executive vice president of First National Bank, in Salt Lake City, Utah; and Lewis Ranieri, chairman of Ranieri and Company, an international investment banker in Uniondale, New York.

The afternoon roundtable discussions centered on ways in which the FHLBank System could be changed (narrowly or broadly) during the next five years in order to enhance its value to members and members' customers.

The remarks and conclusions from both roundtables were discussed and collected and will be compiled into a summary and distributed by the planning committee to each FHLBank board of directors for inclusion in its strategic plan and implementation, as needed. □

and tips, to help community and housing development organizations, property managers, and supportive organizations produce effective budget. It costs \$15 and can be ordered from The Enterprise Foundation by calling (410) 772-2441.

"Linked Future: Building Metropolitan Communities" summarizes the challenges facing urban centers and residents of the inner city as they relate to race, class, access to opportunity and the value of social capital. Copies are available from **The American Project**, One Copenhill, 453 Freedom Parkway, Atlanta, GA 30307, or by calling (404) 881-3450.

"Information Dynamics and CRA Strategy" a study of the economics-of-scale in mortgage lending in low-income and minority areas, concludes that pooling resources among community development banks, loan consortia, and restrictive CRA lending by fewer institutions per area could increase approval of marginal loans by increasing critical mass. For copies, contact the **Federal Reserve Bank of Cleveland** at (216) 579-3079.

The Urban Institute is offering free on-line access to more than 500 indicators of state policies and family well-being such as economic information, housing, employment, and training. The state-by-state data base can be accessed at <http://newfederalism.urban.org/nfdb/index.htm>.

The links between housing and economic development are the focus of the latest issue of "Rural Voices," the quarterly magazine of the **Housing Assistance Council**. Feature stories explore the economic impact of housing development and the factors a nonprofit should consider in starting economic development activities. Single copies are \$4 each and can be ordered from the HAC at (202) 842-8600 or through HAC's website at www.ruralhome.org.

"Rental Housing Assistance -- The Crisis Continues," a recent **HUD** report, shows there are 5.3 million families in need of housing assistance. The report notes that the booming economy has done little to meet the demand for affordable housing, especially for working families. Copies of the report can be obtained from HUD for \$5 by calling HUD USER at 1-800-245-2691. □

Building Blocks is published quarterly by the Federal Housing Finance Board, Office of Public Affairs, 2nd Floor, 1777 F Street, N.W., Washington, D.C. 20006. The telephone number is (202) 408-2810 and the e-mail is mcgeed@fhfb.gov.

Chairman
Bruce A. Morrison

Editor/Writer
Dennis O. McGee